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TAGS: [ENRG](#) [ECON](#) [TRGY](#) [KTDB](#) [NS](#)
SUBJECT: SURINAME'S STATE-OWNED ELECTRICITY COMPANY NEARING
BANKRUPTCY

REF: 05 PARAMARIBO 213

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Summary

¶1. News that Suriname's state-owned electric utility company, EBS, will need to file for bankruptcy unless the Government of Suriname (GOS) quickly intervenes to prevent a shutdown has jostled Surinamers. The Minister of Natural Resources, Gregory Rusland, has asked the government's accounting office (CLAD) to undertake a full investigation of EBS financial records. Government officials have tried to calm fears of those who remember frequent blackouts. End Summary.

EBS's Financial Woes

¶2. According to an Ernst & Young report, EBS posted a consolidated loss in 2004 of approximately 8.6 million USD, compared to a loss of 5 million USD in 2003. Internal company figures indicate that the 2005 loss is expected to reach 18 million USD. The losses have had a serious effect on the company's cash flow, dropping retained earnings from the positive range to negative 3.6 million USD. The negative trend is expected to worsen when losses from 2005 are fully reported. The ongoing cash flow shortage will make it impossible for the company to meet outstanding debt payments, and the company has already exhausted most of its usual sources of credit. The company's long-term (more than five year) debt stood at 58 million USD and its short-term debt at 43 million USD. Capital repayments and interest on the short-term debt stood at 11 million USD in ¶2004. EBS further owes its pension fund an undisclosed but significant amount. Ernst & Young has refused to place its audited seal on the current report citing "technical difficulties," apparently arising from inaccurate or incomplete data in 1995-2003 financial statements from EBS.

¶3. The government's response was for the Minister of Natural Resources, Gregory Rusland, to state that the government would continue to guarantee the nation's energy supply. Rusland hired experts, undefined, to help resolve the financial crisis but has been unable to indicate when the situation at EBS would be stabilized. On February 25, "Dagblad Suriname" reported that the Minister had asked the government's central accounting office (CLAD) to conduct a

thorough investigation of EBS's finances. A team of experts from CLAD, the InterAmerican Development Bank (IDB) and the Energy Commission of the Ministry of Natural Resources were also ordered to conduct an evaluation of the tariff structure EBS uses, factoring in the effect of the last round of price increases in November 2005 which were supposed to resolve the company's cash flow problems.

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Beyond Financial Problems Capacity Shortfall
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14. EBS' problems go beyond its immediate financial woes. The company has been unable to keep up with the growing demand for energy. Household demand for electricity over the last 20 years has increased at peak periods from 35MW to 125MW an increase of more than 200 percent. Energy experts estimate current shortfall in supply anywhere from 100 to 150 megawatts. EBS itself forecasts growth in demand at approximately 10 percent annually. The average waiting time for a newly constructed house to be connected to the power grid runs anywhere from 6 months to a year, and requires the concomitant stamina to navigate a very cumbersome bureaucracy. Many businesses complain about severe setbacks in expanding or establishing operations because of the power shortage. Manufacturing companies often purchase their own electric generators to maintain production levels. Larger enterprises in Suriname, Suralco (Alcoa subsidiary), BHPBilliton and Staatsolie have even gone so far as to take their companies off the grid, establishing their own power generating systems to ensure consistency. Households and smaller businesses often incur losses due to rolling blackouts, which cause damage to equipment and merchandise.

15. Another major problem is deteriorating infrastructure. Eighty percent of Suriname's electricity is produced by the

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hydroelectric plant at the Afobakka dam (Suralco managed). The electricity is transported to the city through an outdated and inefficient 161 KV transmission line. Experts estimate that approximately 8 percent of electricity is lost due to leakage. The secondary source of energy, EBS's diesel generating plant, is costly and inefficient. Designed to produce 53.6 MW through 10 diesel-powered generators, the plant currently produces only 26.5 MW of energy.

16. In late 2004/early 2005, drought caused the water levels in the lake feeding the turbines of the hydroelectric plant to drop dramatically. Suralco, as the wholesale supplier of electricity, was unable to deliver the full 100 MW it had contracted to provide. This event surfaced an ongoing controversy over who is ultimately responsible for supplying electric energy to Suriname, Suralco or EBS. Suralco leased 30 diesel-powered generators (Agrekko model) to produce 25 MW of electricity to cover the shortfall. These generators operated for approximately six months at a price tag of two million USD per month. Who is responsible for payment, Suralco or the state utility company, remains unsolved and will probably go to arbitration.

17. EBS, as a parastatal has been subject to political interference. The position of general manager, vacant since 2001, has been assumed by Oemar Chiragally, chairman of the Board of Supervisors. Chiragally was appointed by current President Ronald Venetiaan as a result of his connections to the President's NPS party. The term of the current Board expired in January 2005 and no replacements have been named. For years, service on EBS's board was considered political plum, as salaries and perks were high and management experience seemed a minor detail. Minister Rusland has told the press that his ministry is working on a new structure of management, which still needs "political backing" and approval of the Council of Ministers.

Attempted Solutions

¶8. A long-range investment plan, estimated cost 100 million USD, was drafted to chart the company's future. As part of this, in 2002, EBS signed an agreement with a consortium of six companies from Suriname, Germany and the Netherlands to expand the transmission and distribution network in and around Paramaribo. Initially budgeted at 11 million Euros, this project is currently in progress. Through an 18.9 million USD credit line with India, EBS has also ordered a new 161 KV transmission line to be built from Afobakka to Paramaribo. This transmission line will transport 100 MW of electricity from the dam to the city without leakage. To upgrade its diesel-powered plant, EBS purchased 3 8-MW generators from Germany for approximately seven million USD each. EBS has also signed a contract to purchase electricity from the 15 MW power plant Staatsolie is building (See Reftel).

¶9. Staatsolie (Suriname's most successful parastatal) turned over approximately 80 million USD in income tax and dividends to the government in 2005. According to Minister Rusland, part of this money will be used to help tide over EBS until the depth of its financial and administrative problems are clarified by CLAD study. Private sector organizations like the chambers of commerce (KKF and VSB) and the labor unions have called for an increase in the price of electricity and a better distribution of the tariff structure as long-range solutions, although Rusland stated that there would be no increase until expert evaluation has been completed.

¶10. The situation is dire enough that there have been calls to split the company up into several smaller more manageable companies with each taking the responsibility for one sub step in the process of power generation and supply, or to sell EBS to a foreign investor with the capital and expertise to keep it afloat.

Comment

¶11. Suriname is at a crossroad in addressing its energy needs and must carefully rectify the problems of the state utility company to not only stave off a looming energy

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supply crisis but also chart the proper course for the long-term electricity needs of a growing economy. Lack of reliable power is hammering business expansion and putting some foreign investment on hold. EBS is another example of a parastatal which has been politicized and mismanaged to the detriment of the Surinamese population. The government faces politically tough choices: stir outrage now with rate increases and install new professional management, or continue business as usual which involves postponing decisions for as long as possible. One business group claims to have prepared an options paper for the President which explains just how costly decisions deferred will be; they estimate failure to act could leave the government financing an EBS deficit of 35-40 million USD a year by the time of the next elections.

BARNES